

PENINSULA SCHOOL DISTRICT No. 401
Pierce County, Washington
September 1, 1990 Through August 31, 1992

Schedule Of Findings

1. The District Should Not Use District Time And Assets To Aid Political Campaigns

Our audit of the records revealed the district architect, who is a district employee, violated state law when he used district resources to solicit contributions for the "Citizens For Peninsula Schools" in support of the November 1992 bond levy. The letter is shown in Attachment A.

Also, the deputy superintendent violated state law by using district employee's time and materials when writing to "Citizens for Morrison" offering his support. He also offered his support in a letter to Nick L. Markovich, who was running for the City Council of Gig Harbor. Both letters were on Peninsula School District letterhead and are presented in Attachments B and C.

We also reviewed a list of vendors for the superintendent, deputy superintendent, district architect, business manager and purchasing agent to contact for contributions. Dollar amounts were annotated next to several of the names. Public Disclosure Commission records indicate that 64 percent of the contributions for the 1992 bond levy campaign came from current vendors of the district.

RCW 42.17.130, Forbids use of public office or agency facilities in campaigns.

No elective official nor any employee of his office nor any person appointed to or employed by any public office or agency may use or authorize the use of any of the facilities of a public office or agency, directly or indirectly, for the purpose of assisting a campaign for election of any person to any office or for the promotion of or opposition to any ballot proposition. Facilities of public office or agency include, but are not limited to, use of stationery, postage, machines, and equipment, use of employees of the office or agency during working hours

The activities noted above violated state law, and exposed the district to criticism from other political committees in competition with the November 1992 bond levy, "Citizens for Morrison," and opponents of Nick Markovich. Also solicitation of contributions from vendors who do a large volume of business with the district gives the appearance of a conflict and subjects the district to criticism from vendors who are not awarded contracts.

The activities as stated were due to a disregard or lack of knowledge of state campaign law by certain members of district management.

We recommend:

- a. The Public Disclosure Commission review this situation and take any action they deem appropriate.
- b. Administrators of Peninsula School District comply with state law and refrain from using district employees and materials to assist political campaigns.
- c. The district recover any applicable costs incurred.

2. District School Bus Ridership Records Were Falsified

Our audit of school bus ridership documents revealed that the district's accounting records were falsified. During our investigation, the district's attorney, Bill Coats, informed us that Mr. Roger Anderson, director of the transportation department had confessed to the falsification, during at least the audit period September 1, 1991, through August 31, 1993. Our audit evidence supports this assertion. However, Mr. Anderson did not appear to receive any personal gain as a result of these actions. Federal funds were not involved in this case.

The director of the transportation department inflated the number of students who rode school buses for an undetermined number of school accounting years, and knowingly reported inaccurate ridership information to the Office of the Superintendent of Public Instruction (SPI) during annual bus ridership survey periods. Falsified ridership records included many School Bus Route Logs and at least one bus route map. These bus ridership falsifications were pervasive throughout the system. However, it was not practical for us to determine the extent of these falsifications or to quantify the amount of excess funds the district received from SPI during each affected school accounting year.

In addition, school bus drivers did not accurately record actual student ridership on School Bus Route Logs during annual bus ridership survey periods. Some bus drivers were instructed by Roger Anderson to record the amount of students who should have ridden the bus during the survey period rather than the number of students who actually rode the bus, as required. Other drivers always recorded that one student rode the bus even when no students got on the bus at a particular stop because they believed they were precluded from entering zero students on the form for any designated stop. As a result, even the number of students which appear to be valid on School Bus Route Logs may not necessarily be an accurate representation of actual student ridership during annual bus ridership survey periods.

Increased transportation funding from SPI significantly improved the overall financial condition of the district's department of transportation.

The falsification of school bus ridership records could ultimately jeopardize state funding to the district. This funding is vital for the district to operate its legitimate and needed school bus transportation system.

Mr. Roger Anderson was the director of the transportation department during the period of this falsification of public records and was the individual primarily responsible for the accuracy of the district's bus ridership records. On July 29, 1993, Mr. Anderson declined to discuss these irregularities with us on the advice of legal counsel. However, on July 30, 1993, we were informed that Mr. Anderson confessed to district officials that he falsified bus ridership records in the transportation department. He was immediately placed on administrative leave pending a further investigation of this matter and resigned shortly thereafter.

RCW 40.16.030 states:

Every person who shall knowingly procure or offer any false or forged instrument to be filed, registered or recorded in any public office, which instrument, if genuine, might be filed, registered or recorded in such office under any law of this state or of the United States, shall be punished by imprisonment in the state penitentiary for not more than five years, or by a fine of not more than five thousand dollars, or by both.

The following internal control weaknesses allowed the director of the transportation department to conceal these falsifications without being detected in a timely manner:

- a. The bus ridership system is unauditable at all school districts in the State of Washington. At the time the bus ridership survey forms are completed by bus drivers, there is no formal list of the students and bus stops that could be used to verify this information. As a result, no one is able to prove the accuracy of the annual bus ridership survey information prepared by the districts and reported to SPI.
- b. School Bus Route Logs were completed in pencil. Thus, they were easily changed to inflate the number of students who rode buses during annual bus ridership survey periods.

We recommend the Pierce County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances.

We also recommend:

- a. The district submit accurate school bus ridership information to SPI during annual bus ridership survey periods.
- b. SPI improve the existing statewide school bus ridership system to make it auditable like its similar system for student enrollment; or, revise the system to include a different method of allocating school bus transportation revenues to school districts such as by total bus mileage or some other reasonable method.
- c. SPI consider monitoring the school bus ridership system at Peninsula School District No. 401 next year, and periodically thereafter if deemed appropriate under the circumstances.

3. The District Should Discontinue Scrap Metal Sales For The Employees Coffee Fund

During our audit we learned that moneys from the sale of scrap metals were retained by a maintenance employee for a coffee fund. Maintenance department employees hauled scrap metal from the district's maintenance shop to at least two scrap metal dealers in the Port of Tacoma area beginning approximately in 1984. The metal was hauled during the work day and with a district vehicle.

We reviewed records at two Tacoma-area metals dealers dating back to January 1990 and found 24 deliveries and a total of \$2,780 paid to a maintenance employee of the district, over this time period for scrap metals. On some dates more than one delivery was made. We can find no evidence these moneys were turned over to the district, however, we did learn at least two checks were deposited in a private bank account at the Educational Employees Credit Union.

The Washington State Constitution, Article XI, Section 15 states in part:

DEPOSIT OF PUBLIC FUNDS. All moneys, assessments and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer

In addition to the district not receiving the use of \$2,780, the district lost the services of maintenance employees and vehicles while collecting and delivering scrap metals.

This situation occurred because the district does not have procedures in place to address the handling of scrap materials. Additionally, we were informed that this practice was approved by the department supervisor.

We recommend the district develop procedures for handling scrap materials and discontinue using scrap sales to pay for employee coffee funds.

4. The District Should Recover From The Deputy Superintendent The Cost Of Personal Work He Directed Three Secretaries To Perform

Our audit of the financial records of the district for the 1990-92 fiscal years revealed that the deputy superintendent, John Armenia, misused his authority by directing three secretaries to perform substantial personal business in his behalf. These irregularities occurred on district time, using district assets, including paper, equipment and long distance phone calls. Following are examples of personal business work performed:

- a. The secretaries typed letters and memos, and made copies at the specific direction of the deputy for the deputy's personal affairs such as: letters to a plumber, friends, dry cleaners, niece, builders, Pierce County Planning and Land Services (concerning property he owned), judges, heating contractor, and to district Education Service Center (ESC) staff concerning his wife's PTA fund-raiser. She is a principal in a different school district. The district secretary was directed to collect and hold these moneys belonging to another district PTA. An excerpt of the letter is as follows:

. . . Brenda's PTA is selling Entertainment '91 books for the South Sound . . . If you are interested . . . give it to Ellen (PSD employee) along with a check made payable to Mullenix Ridge PTA

- b. Letters were prepared and sent to players in golf tournaments; an application for a different job; letters to U.S. Congressmen; to an artist from whom he commissioned a painting for his home; and to prospective students of Gonzaga University. Further, \$55.90 was charged to the district through the normal claims process for a Gonzaga University Alumni Directory.
- c. Flyers were prepared concerning Canterwood Arbor Day and letters to newspapers. When the deputy moved into Canterwood, the secretary was directed to: call rental agencies, cable TV, utility companies, and arrange to have high school students help him move.
- d. Some personal activities performed for the Gig Harbor Rotary were:
 - (1) At least 39 Rotary newsletters were created on district time, printed on district equipment, using district paper, and some were mailed at the expense of the district.
 - (2) Flyers were created on district time, printed on district equipment, using district paper, and mailed at the expense of the district. Events included: Rotary rose sales, Rotary smoked salmon-1991 and 1992 sales, and Rotary golf activities. Payments for the activities came to the district ESC to the deputy superintendent and his secretary. Many of the roses were delivered by the deputy superintendent or his secretary.
 - (3) District secretaries used district paper and equipment to create many different flyers and documents for Rotary golf. They typed and copied announcements and programs, entry forms, extensive mailing lists and list of winners, schedules of players, handicaps and scores, and sponsorship forms; prepared winners plaques; fixed tee markers; used "work experience students" to label and fold announcements; spent two days reviewing photos taken of the players, matching to addresses and mailing them out with district postage; typed and copied menus; and typed district invoices to Rotary to get reimbursement for

postage. The deputy superintendent, who is the Rotary Golf Tournament chairman had the secretary redo the invoice for lack of adequate detail, and changed the mailing address from "Peninsula School District" to "Postmaster."

(4) Thank you letters on district letterhead were prepared for Rotary dinners not related to school business.

Article VIII, Section 7 of the Washington State Constitution states in part:

. . . No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual. . . .

Also, RCW 42.20.010(3) states in part:

Every public officer who shall . . . Employ or use any person, money, or property under his official control or direction, or in his official custody, for the private benefit or gain of himself or another;

Shall be guilty of a gross misdemeanor

Misuse of public assets by the deputy superintendent has created an environment which is not appropriate for a government. Scarce educational resources were used by the deputy superintendent for his private benefit. The estimated cost of the services, material, and equipment are \$6,113.

The misuse of public assets as stated were due to the deputy superintendent's disregard for state law and lack of oversight by the superintendent. The Rotary activities occurred with the superintendent's knowledge.

We recommend the district recover from the deputy superintendent the costs of the personal business detailed above including: employee's time plus benefits, paper (letterhead), postage, envelopes, and reasonable copy machine usage charges including copy paper. We also recommend district officials not use public resources for private benefit.

5. Sewer Project

The following findings concerning sewer construction activities contain very complex accounting and legal issues. Therefore, we have prepared a chronology of events and transactions for the district's sewer construction project. We will first list the conditions we found. Secondly, we will list the applicable laws, regulations, and district policies we used to form our opinions. Finally, we have written findings addressing specific conditions. For sake of readability, our report findings will reference to the criteria summary, rather than including the criteria in the body of findings.

STATEMENT OF BACKGROUND AND CONDITIONS

The Peninsula School District began consideration of connecting its Purdy Campus to the City of Gig Harbor's sewer system in 1990. During the period from October 1990 through December 1992, district employees, under the direction of Tom Hulst, district superintendent, generally coordinated activities resulting in formation of City of Gig Harbor Utility Local Improvement District (ULID) No. 3 and in awarding construction contracts for a sewer line from the district's Purdy Campus to the City of Gig Harbor's sewer system. The sewer line consists of two portions (see Attachment D):

- Line A: The district constructed portion of the sewer line running from the Purdy Campus to a pump station on Wood Hill; and
- Line B: The ULID constructed portion running from the Wood Hill pump station to the City of Gig Harbor's sewer system.

The district is paying the full cost of Line A while ULID assessments are paying the cost of Line B.

In their efforts to construct the sewer line, both Line A and Line B, district employees held community meetings, met privately with business property owners, City of Gig Harbor and Pierce County officials, and appeared before Gig Harbor's city council. In an effort to justify the sewer project, Dr. John Armenia, district deputy superintendent, told the Gig Harbor City Council that the Pierce County Planning Department recommended the district connect to a sewer. Dr. Armenia, in a memo dated November 23, 1992, also told the president of the district board of directors connection of the Purdy Campus to a sewer was required by the Pierce County Planning Department in order to expand the Purdy Campus. The Gig Harbor City Administrator, Mike Wilson, told the Pierce County Boundary Review Board the district's Purdy Campus septic system was failing. **Through inquiries we made, we were unable to confirm that such condition or requirement was made by any state or local agency or department.**

District resources were used during this period to obtain professional services for the planning and design of the sewer. Specific events or actions that occurred during this period were:

1. In October 1990, Dr. John Armenia, deputy superintendent, selected Sitts & Hill Engineers, Inc., as the engineering firm for the sewer project without following state law or district policies and procedures related to the selection of architectural or engineering firms. [See Finding A.]
2. Neither a written contract nor a district purchase order for Sitts & Hill's services was prepared until April 1991. Dr. Armenia, however, approved payment of approximately \$24,000 to Sitts & Hill for work performed during the period

October 1990 to April 1991. On April 21, 1991, Sitts & Hill submitted a proposal for "Purdy Campus Sewer Extension Consultant Services."

This proposal, which estimated their total fee for engineering services related to sewer activities to be approximately \$119,000, was never approved by the board. Instead, it was used to create a purchase order which served as the basis for subsequent payments to Sitts & Hill. [See Finding A.]

3. Sitts & Hill was instructed by Mr. Hulst and Dr. Armenia to design a sewer line which would serve **both** the district's Purdy Campus and the "Purdy Community." The "Purdy Community" is a geographic area around sewer Line A, the district constructed sewer line. Although specific properties are not identified, property owners within this area will have the opportunity, in the future, to connect to the district's sewer line (Line A). Sitts & Hill's correspondence with the district indicates the capacity of Line A was designed to have a flow capacity of 101,000 gallons per day (gpd). Sitts & Hill's design shows the district needed 30,000 gpd and the remaining 71,000 gpd is for the Purdy Community. Sitts & Hill allocated the estimated cost of this sewer line (\$510,000) based on the assignment of design capacity: \$151,485 to the district and \$358,515 to the Purdy Community. District resources were used to pay for this plan. [See Finding B.]
4. District officials did not obtain board approval of the sewer project prior to beginning work on it. The first official record of board action related to the sewer project was the board's approval of a Sewer Extension and Capacity Agreement with the City of Gig Harbor in September 1991. In this agreement the City of Gig Harbor gave the district access to sewage treatment capacity of 38,000 gallons per day in the city's sewage treatment plant. By the time the board approved this agreement, approximately \$72,000 had been expended and charged to the district's 1990 bond funds. Board Resolution 89-33 authorizing the issuance of 1990 bonds requires prior board approval of projects undertaken with bond proceeds. The board did not approve the use of 1990 bond proceeds for the sewer project until Resolution 92-12, on May 26, 1992, when it issued bonds authorized by the 1990 bond levy to pay for sewer project costs. We found no official record indicating the board authorized the use of bond proceeds for any sewer costs prior to board approval of Resolution 92-19. [See Finding C.]
5. Initially the district planned to join with Canterwood Golf and Country Club to construct a joint use sewer line. Sitts & Hill was instructed to design this sewer line. As plans for the sewer line progressed, other large property owners requested inclusion. These property owners included Lorigon Corporation (for other Canterwood properties owned by Lorigon), Tucci & Sons, Pope Resources, Thompson Properties Four, South Purdy Associates, Purdy Realty, and Active Construction. Although employed and paid by the district, Sitts & Hill modified the design of the sewer line to accommodate these additional property owners. After attempts to work out a joint cost sharing agreement failed, the district joined with these property owners to create, via petition to the City of Gig Harbor, Utility Local Improvement District (ULID) No. 3. The ULID sewer line (Line B) begins at the Wood Hill pump station, where the district's line (Line A) ends, and continues to the City of Gig Harbor sewer system. The district advanced \$43,900 for the cost of ULID related engineering services. Sitts & Hill made provisions for the district to receive credit toward the district's ULID assessment for advancing the \$43,900. [See Findings C and D.]
6. The nine ULID participants (identified in condition 5 above) will be assessed their share of the cost of ULID improvements based upon gallons per day flow

from the point of connection to the ULID line (Line B). The ULID assessment schedule, which was prepared by Sitts & Hill, shows the district's ULID assessment is based on 101,000 gallons per day. This is the combined flow of the Purdy Community (71,000 gallons per day) and the district (30,000 gallons per day) from Line A which is delivered to the beginning of the ULID sewer line (Line B) at the Wood Hill pump station. The ULID assessment schedule prepared by Sitts & Hill on January 16, 1992, shows the district is advancing an estimated \$229,710 for the Purdy Community's share of ULID No. 3's improvements. [See Finding D.]

7. When the district's Purdy Campus connection to the City's sewer system is complete, the district will have paid, or be obligated to pay, both the district's and Purdy Community's share of the costs. Sitts & Hill's January 16, 1992, estimate of these costs was:

	Flow in gallons per day (gpd)	-Line A- Estimated Cost of District Sewer Line	-Line B- Estimated Assessment for ULID Sewer Line	Estimated Total Cost
Purdy Community	71,000	\$358,515	\$229,710	\$588,225
District	<u>30,000</u>	<u>151,485</u>	<u>97,061</u>	<u>248,546</u>
Total District Sewer Cost Obligations	<u>101,000</u>	<u>\$510,000</u>	<u>\$326,771</u>	<u>\$836,771</u>

Note: The Purdy Community does not include the property owners listed in Item 5 above. See Attachment E.

The district obligated itself to pay the Purdy Community's share of the sewer project (both Lines A and B) cost when the school board approved the Interlocal Cooperative Agreement For Construction of a Sanitary Sewer and Reimbursement For Latecomers Agreement with the City of Gig Harbor in June 1992. This agreement used the January 16, 1992, Sitts & Hill cost breakdown for participants (outlined above) to identify the amount the district would be obligated to pay on behalf of the Purdy Community. To allow the district to recover the costs it will pay for the benefit of the Purdy Community, this agreement provided a formula for determining the amount to be assessed to latecomers when they connect to the district's sewer line (Line A). The agreement provides for the city to retain five percent of any latecomer payments as an administrative fee. There is no assurance of connections which would utilize the 71,000 gallons per day excess capacity paid for by the district. Also, even if connections to the district's line used the entire 71,000 gallons per day capacity constructed for the Purdy Community, the district cannot recover the full amount it has advanced for the Purdy Community. [See Finding D.]

CRITERIA

To provide for ease of reference, applicable district policy adopted by the school board as well as provisions of state law and the state constitution are cited below. Findings A through E below will refer to these criteria rather than restate them.

1. **Article VIII, Section 7, of the Washington State Constitution, Credit Not To Be Loaned**, states in part:

No . . . municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

See Findings 5 B, D, and E.

2. **Article XI, Section 14, of the Washington State Constitution, Private Use Of Public Funds Prohibited**, states in part:

The making of profit out of county, city, town, or other public money, or using the same for any purpose not authorized by law, by any officer have the possession or control thereof, shall be a felony, and shall be prosecuted and punished as prescribed by law. (Emphasis added.)

See Findings 5 B, D, and E.

3. **Revised Code of Washington, Title 28A**, does not authorize a district to construct or pay for a community sewer line.

See Finding 5 B.

4. **RCW 28A.330.090** states in part:

. . . except as provided by law, no expenditure greater than three hundred dollars shall be voted by the board except in accordance with a written contract

See Findings 5 A and E.

5. **RCW 28A.400.030** states in part:

In addition to such other duties as a district school board shall prescribe the district superintendent shall:

(3) Keep accurate and detailed accounts of all receipts and expenditures of school money . . .

(6) Carry out all orders of the board of directors made at any regular or special meeting.

See Findings 5 A and E.

6. **RCW 28A.530.010** states in part:

The board of directors of any school district may borrow money and issue negotiable bonds therefore for the purpose of:

(5) For major and minor structural changes and structural additions to buildings, structures, facilities and sites necessary or proper to carrying out the functions of the school district

See Findings 5 C, D, and E.

7. **RCW 39.80.030** states in part:

Each agency shall publish in advance that agency's requirement

for professional services. The announcement shall state concisely the general scope and nature of the project or work

RCW 39.80.020 states in part:

"Agency" means both state and local agencies

See Findings 5 A and E.

8. **RCW 39.80.040** states in part:

. . . The agency shall evaluate current statements of qualifications and performance data on file with the agency, together with those that may be submitted by other firms regarding the proposed project . . . and then shall select therefrom, based upon criteria established by the agency

See Findings 5 A and E.

9. **RCW 42.20.010** states in part:

Every public officer who shall . . . (3) Employ or use any person, money, or property under his official control or direction, or in his official custody, for the private benefit or gain of himself or another; Shall be guilty of a gross misdemeanor

See Findings 5 A and E.

10. **RCW 42.20.070** states in part:

Every public officer, and every other person receiving money on behalf of or for or on account of the people of the . . . school . . . district, who (1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise . . . shall be punished by imprisonment in the state penitentiary for not more than fifteen years.

See Findings 5 A and E.

11. **RCW 42.20.100** states in part:

Whenever any duty is enjoined by law upon any public officer or other person holding any public trust or employment, their willful neglect to perform such duty, except where otherwise specially provided for, shall be a misdemeanor.

See Findings 5 A and E.

12. **RCW 42.24.080** states in part:

All claims presented against any . . . district . . . by persons . . . rendering services . . . shall be audited, before payment, by an auditing officer . . . appointed pursuant to . . . resolution of the municipal corporation . . . The form shall provide for the authentication and certification by such auditing officer that . . . the claim is a just, due and unpaid obligation against the

municipal corporation . . . and no claim shall be paid without such authentication and certification

See Findings 5 A and E.

13. **District's Policy 7325, Consultants**, adopted May 9, 1988, states in part:

It is the policy of the district that consultants may be retained by written contract by the superintendent when there is a need for special skills . . . Consultant contracts for a year or more or in the amount of \$20,000 or more shall be approved by the board. (Emphasis added.)

See Findings 5 A and E.

14. **District Procedure 7325P, Consultants**, states in part:

Signed contracts shall be submitted to the Business Department for insertion in the district's accounting system as an authorized expenditure prior to work being performed. (Emphasis added.)

See Findings 5 A and E.

15. **District Policy 9321, Architect and Engineering Services**, requires the following when selecting engineering firms where the estimated fee exceeds \$50,000:

- a. Publishing in a newspaper of general circulation an announcement inviting all interested A/E firms to indicate their interest in providing professional services for a specific project.
- b. Establishing an A/E selection panel for the project consisting of between three and five voting members, two of whom may be board members, and a chairperson.
- c. Selection panel review, evaluation, scoring, and ranking of submittals received in response to the public announcement.
- d. The Superintendent or designee to negotiate an agreement with the highest ranking firm.

See Findings 5 A and E.

AUDIT FINDINGS 5A THROUGH 5E

- 5 A. The Board And District Personnel Should Comply With State Law And District Policies And Procedures When Paying Claims

Sitts & Hill were selected as the sewer project's engineering firm without obtaining competing proposals or board approval. The district paid Sitts & Hill approximately \$24,000 without a written contract for work performed between October 1990 and April 1991. Without knowledge of the sewer project or the purpose of Sitts and Hill's work, the board approved by blanket voucher approval, and the district auditing officer certified, each of the payment requests. A proposal was obtained from Sitts & Hill in April 1991 but it was not submitted to the board for approval.

According to Mr. Hulst, Sitts & Hill was selected based on other work they had performed for the district. Mr. Hulst stated that he and Dr. Armenia had simply "overlooked" the district's policies and procedures for the selection and retention of consultants.

The manner in which Sitts & Hill was selected to perform the sewer project engineering services was contrary to **Criteria 7 - RCW 39.80.030, Criteria 8 - RCW 39.80.040, Criteria 13 - District Policy 7325, and Criteria 15 - District Policy 9321**. Payment to Sitts & Hill without a written contract is contrary to **Criteria 4 - RCW 28A.330.090 and Criteria 14 - District Procedure 7325P**. The failure of Mr. Hulst to observe district policy established by the school board places Mr. Hulst in violation of **Criteria 5 - RCW 28A.400.030(6)**. Mr. Hulst's actions may make him subject to the provisions of **Criteria 9 - RCW 42.20.010, to Criteria 10 - RCW 42.20.070, or to Criteria 11 - RCW 42.20.100**.

As a result of the improper actions surrounding the selection and payment of Sitts & Hill, the auditing officer's certification of Sitts & Hill's claims as just, due, and unpaid obligations of the district, as required by **Criteria 12 - RCW 42.24.080**, may not be relied upon. Also, the fact that the improper selection and payment occurred indicates significant weaknesses in the district's internal controls over payment of vendor claims. As a result of these improper actions, payments were made that may not have been approved had the proper procedures been followed.

We recommend the district comply with state law when approving claims in the future. We also recommend the board take action to ensure the district superintendent and administrative personnel comply with policy and procedures established by the board. We further recommend the district's internal control systems over the payment of claims be revised to ensure only properly authorized claims are paid.

5 B. The District Does Not Have Legal Authority To Construct A Community Sewer

Sitts and Hill Engineers were instructed by Mr. Hulst and Dr. Armenia to design a sewer line (Line A and Line B) which would benefit both the Purdy community and the district. Mr. Hulst indicated he decided the Purdy Campus sewer line would serve both the district and the Purdy community because he had received a "... black-eye ..." as a result of constructing a single user sewer line at another district school. Mr. Hulst stated that he received complaints from community members because they were not allowed to connect to the single user sewer line. Mr. Hulst further indicated he did not want to receive another "... black-eye ..." as a result of the Purdy Campus sewer extension.

We asked Mr. Hulst if he had considered the legality of using district funds to construct a community sewer when the project started. Mr. Hulst stated he had discussed this with one of the district's attorneys in 1990 or 1991, but he did not provide documentation of this consideration. Instead, Mr. Hulst provided a current legal opinion which addressed the legal authority of a district to expend funds for a school sewer, not the legality of constructing a community sewer line which was designed to benefit private parties.

Criteria 3 - RCW Title 28A - Common School Provisions, does not contain any provision authorizing a district to use its resources to construct a public work for the benefit of the community. The district's payment for a community sewer is therefore a use of public funds for private benefit as well as for a purpose not authorized by law. Such payment is contrary to **Criteria 1 - Washington State Constitution, Article VIII, Section 7**, as well as **Criteria 2 - Washington State Constitution, Article XI, Section 14**.

We recommend the district use public funds only for purposes authorized by statute.

5 C. The School Board Should Authorize Bond Issue Projects Prior To Expenditure Of Bond Funds

At the direction of Mr. Tom Hulst and Dr. John Armenia, as explained in Condition Statements 4 and 5, expenditures on the sewer project began in October 1990, without school board approval of the project. Approximately \$72,000 in bond proceeds had been expended on the sewer project by September 1991, when implied board approval of the project was obtained. Included in these payments was approximately \$43,000 paid for ULID engineering prior to formation of the ULID.

In a memo dated November 16, 1992, Keith Stiles, school board president, asked Dr. Armenia the following question:

Have we utilized any funds from the 1990 issue to accomplish any tasks that were not specifically defined and authorized when the scope of the work for 1990 projects was before the public?

In a November 23, 1992, memo, Dr. Armenia responded that the:

. . . Purdy Sewer Project was an unforeseen project scope requirement by the County for the construction of improvements to the Purdy Campus, Peninsula High School, and the Transportation Center

We were not able to verify, through our inquiries, that a county agency or authority required connection to a sewer system as a condition of expanding the district's Purdy Campus. In addition, review of district records noted the initial scope of work related to sewage at the Peninsula High School site consisted of relocating the backup septic drain field at an estimated cost of \$50,000, not the construction of a sewer system at an estimated cost of \$836,771. Also, a November 27, 1990, memorandum to Dr. Armenia from Duane Berg, then district architect, indicates the Purdy Campus Sewer was an unbudgeted future project.

District management was unable to provide an explanation as to why the board was not formally notified of the sewer project nor why formal board approval of the project was not obtained even though bond proceeds were being used.

Charging district (Line A) and ULID (Line B) sewer project costs to bond proceeds without board authorization or approval is contrary to **Criteria 6 - RCW 28A.530.010**. Use of bond proceeds for a purpose not authorized by law (Finding B) is contrary to **Criteria 2 - Washington State Constitution, Article XI, Section 14**. Use of 1990 bond issue funds without approval of the project by the school board is also contrary to the 1990 bond resolution.

We recommend the school board take action to ensure that bond issue funds are expended only for projects approved by the board and allowed by law.

5 D. District Participation In A Utility Local Improvement District Should Comply With The Washington State Constitution

As explained in Condition Statements 5, 6, and 7, participation in ULID No. 3 obligates the district to advance an estimated \$229,710 for the Purdy Community's share of the ULID assessment. District payment of the Purdy Community assessment is not a purpose authorized by law. It is also a use of school bond proceeds for private benefit. Use of these funds in this manner directly benefits the other ULID participants by reducing their assessments. The other ULID participants are Canterwood Golf and Country Club, Lorigon Corporation, Tucci & Sons, Pope Resources, Thompson Properties Four, South Purdy Associates, Purdy Realty, and Active Construction.

The district's obligation to pay the ULID assessment for the Purdy Community is contrary to **Criteria 1 - Washington State Constitution, Article VIII, Section 7, and Criteria 2 - Washington State Constitution, Article XI, Section 14**. Also, the use of district bond funds for the benefit of private parties may affect the tax status of those bonds.

As noted in Finding B, actions contrary to the Washington State Constitution were taken as the result of Mr. Hulst and Dr. Armenia making a decision to pay for a community sewer line and to advance funds to pay ULID costs from bond proceeds before the ULID was formed.

In addition to the recommendation detailed in Finding B, we recommend the district negotiate with the City of Gig Harbor in order to remove its obligation to pay the \$229,710 ULID assessment attributed to the Purdy Community. We further recommend the board determine what effect, if any, the use of bond proceeds to benefit private parties has on the tax status of the district's bonds.

5 E. District Officials Should Not Disregard The Washington State Constitution, State Law, Or District Policy

In our opinion, as described in Findings A through D above, the activities of district officials related to the district's sewer project failed to comply with:

- the Washington State Constitution's prohibition against using public funds for private benefit;
- the Washington State Constitution's prohibition against using public funds for purposes not authorized by law;
- state laws related to the payment of claims;
- state laws related to the use of bond proceeds;
- the duties imposed on a superintendent by RCW 28A.400.030(6); and
- state law and district policy for the selection, retention, and payment of architectural and engineering firms.

The actions of district officials have or will deprive the district of the use of an estimated \$588,225 in bond funds, the amount the district has obligated itself to pay for the improper benefit of the Purdy Community. Finally, their activities may affect the tax status of the district's bonds.

We recommend the Washington State Office of Attorney General and the Pierce County Prosecuting Attorney review this matter and take whatever action is

deemed necessary under the circumstances.

6. Capital Projects Fund Expenditures Should Only Be For Allowable Purposes

During our audit we noted that the district improperly charged maintenance and operations expenditures to the Capital Projects Fund. The Capital Projects Fund receives most of its moneys from bond levies. We found the following costs charged to this fund:

- a. Administrative salaries and benefits of the deputy superintendent, the executive assistant to the deputy superintendent and the purchasing agent totaled \$88,860 and \$66,290 for 1991-92 and 1990-91, respectively.

Some of the duties of the deputy superintendent during this period were supervision of the district architect, the district construction representative, maintenance, grounds and custodial, finance and business office, purchasing, food service, and transportation. The job duties of the purchasing agent during the audit period were to manage the purchasing activities of the district. Other responsibilities of the position were warehousing and distribution, supply inventory system, and management of the fixed asset system. The job duties described above demonstrate that the positions are involved in the operation of the district rather than capital project activities.

- b. General planning expenditures totaled \$31,230 and \$5,369 for 1991-92 and 1990-91, respectively. Included in these expenditures were meal charges, 1992 bond issue studies, and other items that are not allowable capital expenditures.

The district has a long-range facilities plan which has been approved by the board, however, evidence of specific approval for individual projects and related project budgets could not be located. Also, the district has changed the scope of several projects to the extent they are significantly different from that which was represented to the public in the 1990 bond facts booklet. We have also been unable to verify board approval of these changes.

- c. The district charged \$7,460 and \$17,195 in 1991-92 and 1990-91, respectively, related to the moving of existing portables. The district also charged \$98,459 for moving a portable to the Capital Projects Fund in 1989-90.
- d. Supplies and equipment expenditures totaled \$4,738 and \$151,372 for 1991-92 and 1990-91, respectively. Of the \$151,372 spent in 1990-91, \$98,439 replaced an existing computer lab at Peninsula High School. The balance represents the cost of equipment which is not initial equipment as defined in the accounting manual.
- e. Inventory team expenditures for 1991-92 were \$4,105.
- f. Instructional supplies for the new Harbor Ridge Middle School were purchased in summer 1991 and charged to the Capital Project Fund as initial equipment. These items, which cost \$35,905, were purchased three years prior to the expected completion of the new school.

The original Harbor Ridge Middle School project budget for computers, equipment and furniture was \$315,000. Through August 31, 1992, the district has spent \$436,053 for these items. Further, these items are currently being used at the old Goodman Middle School building and may not be suitable when the new Harbor Ridge Middle School is finished.

The operating and maintenance expenditures charged to the Capital Project Fund identified above total \$947,036. Of this amount, \$343,586 was originally charged to the General Fund and transferred at year end to the Capital Projects Fund at the request of the director of finance and without board approval.

RCW 28A.530.010 states in part:

The board of directors of any school district may borrow money and issue negotiable bonds therefor for the purpose of:

- (1) Funding outstanding indebtedness or bonds theretofore issued; or
- (2) For the purchase of sites for all buildings, playgrounds, physical education and athletic facilities and structures authorized by law or necessary or proper to carry out the functions of a school district; or
- (3) For erecting all buildings authorized by law, including but not limited to those mentioned in subsection (2) of this section immediately above or necessary or proper to carry out the functions of a school district, and providing the necessary furniture, apparatus, or equipment therefore; or
- (4) For improving the energy efficiency of school district buildings and/or inexhaustible energy resources; or
- (5) For major and minor structural changes and structural additions to buildings, structures, facilities and sites necessary or proper to carrying out the functions of the school district; or
- (6) For any or all the these and other capital purposes

When maintenance and operation costs are charged to the capital projects fund financial information may not be accurately reported in that:

- a. The true cost of operating and maintaining the district is not identified, thereby reducing the board's ability to make informed budget and expenditure decisions. Also, the public does not receive accurate information when voting in bond levy elections.
- b. Funds for projects approved in the 1990 bond issue will not be available due to their use for other, unapproved projects and expenditures.
- c. The true cost of projects approved by the public through their bond levy vote is distorted by the amount of the improperly charged operating costs. In addition, the district does not receive the full benefit of bond funds approved by voters for capital purposes.

In our opinion, the Capital Projects Fund was used for maintenance and operations expenditures because the General Fund was experiencing increasing difficulties supporting district operations. In the 1990-91 fiscal year, General Fund expenditures exceeded revenues by \$246,461; and in 1991-92, expenditures exceeded revenues by \$400,228. If the expenditures improperly charged to the Capital Projects Fund are included, General Fund expenditures would have exceeded revenues by \$852,612 and \$642,654 for 1991-92 and 1990-91, respectively.

We recommend the district General Fund reimburse the Capital Projects Fund \$947,036. We also recommend internal controls over expenditures be revised to ensure that only legally allowable costs are charged to the Capital Projects Fund, and the district employ project accounting for capital projects.

7. The District Should Notify The State Auditor In The Event Of A Suspected Loss Of Public Funds

During our audit we became aware of an instance where district officials knew of or suspected a possible loss of public funds and/or possible illegal acts which could result in a loss of public funds and failed to notify the State Auditor's Office as required.

A district employee filed a complaint under the district's whistleblower policy concerning misappropriation of moneys received from the sale of the district scrap metal. The complaint was filed on July 14, 1993. The district did not notify the State Auditor's Office of this loss of public funds.

Irregularities which could result in a loss of public funds or suspected losses of public funds should be reported to the State Auditor's Office by Division of Municipal Corporations Bulletin No. 007.

When management fails to report employee illegal acts or suspected losses of public funds, the illegal act or possible loss of funds may not be stopped in a timely manner.

We recommend the district establish a system to report to the State Auditor's Office all future suspected losses of public funds.

8. Expenditures Charged To Federal Programs Should Comply With Federal Regulations

During our review of the district's Chapter 1 grant (CFDA 84.010), we noted that the district did not have adequate documentation to support payroll charges to the grant. We selected 12 employees who were funded by various sources for testing. Three of the 12 employees selected did not have time and attendance records to demonstrate the portion of their salary and benefits charges to the program were reasonable. Also, the assistant superintendent for special services and his secretary did not keep records to support their payroll and benefits charges to Chapter 1 totaling \$36,131 and \$32,038 for 1991-92 and 1990-91, respectively.

Other expenditures totaling \$4,048 and \$2,350 in 1992 and 1991, respectively, benefited multiple programs and were improperly charged entirely to the Chapter 1 program. For example, the entire cost of producing a Chapter One/LAP Program Procedural Manual was charged to the Chapter 1 program. The district paid \$8,319 for the manual.

U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, Section B.10.b states in part:

. . . Payroll and distribution of time. Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the . . . local . . . government. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort

OMB Circular A-87 further states that charges to a program must be actual time spent and not budget estimates.

OMB Circular A-87, Attachment A, Section C.1 also states in part:

. . . A cost is allocable to a particular cost objective to the extent of benefits received by such objective

The district does not have an accounting system that meets federal grant accounting requirements, therefore, we question administrative salaries and benefits and several other expenditures charged to the program. Questioned costs for 1991-92 and 1990-91 are \$40,179 and \$34,388, respectively. Also, we cannot determine the validity of other payroll charges to the program.

The Chapter 1 administrator did not keep time and effort records for himself because he did not feel maintenance of such records would be cost effective. The time and effort records of other Chapter 1 staff were not maintained because these records were not a priority and the program did not have a full time administrator until the 1991-92 school year. Other expenditures were charged to Chapter 1 because the program had available budget capacity.

We recommend the district repay \$74,567 to the Superintendent of Public Instruction. We also recommend the district ensure all charges to federal grant programs are legitimate. We further recommend the district consider using indirect cost rates authorized by SPI instead of claiming undocumented costs for reimbursement.

9. Credit Card Use Should Be Limited To Travel Expenses, Supporting Documentation Should Be Improved, And The District Should Recover Unlawful Charges From District Officials

During our audit, we noted district officials used official district charge cards for local meals and other charges not related to travel. This situation was noted in the 1988-1990 audit, Report No. 53704, and has not been resolved. Charges for local meals and other non-travel related charges totaled \$8,000 for the 1992 and 1991 fiscal years. Of this amount, \$2,600 was spent for meals at local establishments such as the Canterwood Golf and Country Club. Some of the district officials using district charge cards at Canterwood are also club members and are required to spend a minimum dollar amount each month at the club. Also, some of the charges occurred on weekends and it was not evident how the charge benefited the district.

Many of these local meals were with other employees and were paid for by one employee who signed the charge slip. Specifically, based upon the district's records, we were able to identify the following:

Tom Hulst	\$678.77 - local meals
John Armenia	\$968.81 - local meals
Dick Minarik	\$394.61 - local meals

Also, district officials who used the charge cards did not submit itemized expense vouchers to document the validity and necessity of such charges. The district accounts payable department paid the monthly billing and attempted to verify each charge as required with a receipt or charge slip. These transactions did not document the necessity of the charges.

RCW 42.24.115 states in part:

- (1) Any municipal corporation or political subdivision may provide for the issuance of charge cards to officers for the sole purpose of covering expenses incident to authorized travel.
- (2) . . . no later than ten days of the billing date, the officer or employee using a charge card issued under this section shall submit a fully itemized travel expense voucher. Any charges against the charge card not properly identified on the travel expense voucher or not allowed following the audit required under RCW 42.24.080 shall be repaid by the official or employee . . .

Since these meals were taken locally they could not be incident to authorized travel as required for charge card usage. Furthermore, there is no documentation that these meals were part of official meetings reimbursable under RCW 28A.320.050.

The charges to the credit card accounts which were not properly documented or related to authorized travel are in violation of state law and effectively bypass the district's purchasing system. This increases the possibility that the district paid for goods or services which it did not receive. Also, because travel vouchers were not submitted after completion of travel, charges to the district's credit cards cannot be substantiated. Based upon credit limits in May 1992, the district could incur a credit card liability exceeding \$60,000 for one month.

These charges were made because district officials believed this was a more expedient method for accomplishing these transactions.

We recommend district officials:

- a. Recover \$2,042.19 from employees for unauthorized meals.
- b. Refrain from using charge cards except while away on authorized travel.
- c. Comply with RCW 42.24.115 which requires itemized travel vouchers to support all credit card charges.

10. The District's Food Purchases For Meetings Is Unauthorized

During our audit of the district's expenditure records for the 1992 and 1991 fiscal years, we found disbursements which conflict with certain provisions of the Washington State Constitution, state laws and school district policy.

- a. Hosting - On several occasions administrators purchased meals for local businessmen, friends, and other persons who were not district employees. We find no authority for a school district to expend funds for hosting.

Article VIII, Section 7 of the Washington State Constitution prohibits the gift of public money or property to:

. . . any individual, association, company or corporation, except
for the necessary support of the poor and infirm . . .

Peninsula School District policy which is consistent with state law, prohibits hosting under all circumstances.

- b. Local Meetings - The district also spent \$32,000 for catering services provided by Marriott, the district's food service contractor, in support of various district meetings.

RCW 28A.320.050 clearly provides that expense of attending meetings shall be paid only as follows:

. . . the expenses of school superintendents and other school
representatives chosen by the directors to attend any
conferences or meetings or to attend to any urgent business at
the behest of the state superintendent of public instruction or
the board of directors shall be paid.

Furthermore, the district's food and beverage consumption policy requires documentation of the purpose for incurring the expenditure, the benefits derived by the district; name and job title or official capacity of those provided the food and beverage; and the type of items provided and the cost.

We found no evidence that any of these meetings were called by the board of directors or the State Superintendent of Public Instruction. In addition we could not find documentation of food and beverage consumption in accordance with district policy. The routine scheduling of meetings to include meals for participants can result in unnecessary costs to district taxpayers.

District management believes that it saves money by paying for meals rather than additional salary for meeting attendance. However, many of the meetings were held during the workday and the food expenditures for such meetings appears inappropriate.

We recommend the district discontinue the practice of providing meals for persons not employed by the district. We also recommend the district follow state law and district policy when providing food and beverages to employees.

11. The District Should Advertise Its Requirements For Architect And Engineering Consulting Services

Peninsula School District officials did not award architect and engineering contracts in accordance with state law and district policy. Sitts & Hill Engineers, Inc., received a total of \$369,720 for architectural and engineering services related to district projects in the last two fiscal years. Snodgrass, Freeman Associates was paid \$192,235 during this same period. The district did not advertise for any of the architectural and engineering services performed by these companies.

The district also did not publish an annual request for the submission of statements of qualifications and performance data from qualified firms offering architectural and engineering services as required by state law and district policy.

RCW 39.80.010 states:

The legislature hereby establishes . . . that governmental agencies publicly announce requirements for architectural and engineering services, and negotiate contracts for architectural and engineering services on the basis of demonstrated competence and qualification for the type of professional services required and at fair and reasonable prices.

RCW 39.80.30 states:

Each agency shall publish in advance that agency's requirement for professional services. The announcement shall state concisely the general scope and nature of the project or work for which the services are required and the address of a representative of the agency who can provide further details. An agency may comply with this section by: (1) Publishing an announcement on each occasion when professional services provided by a consultant are required by the agency; or (2) announcing generally to the public its projected requirements for any category or type of professional services.

RCW 39.80.040 states in part:

In the procurement of architectural and engineering services, the agency shall encourage firms engaged in the lawful practice of their profession to submit annually a statement of qualifications and performance data.

District Policy 9231 "Architect and Engineering Services" provides specific procedures for selection of firms to perform district projects. The policy requires the district to publish an announcement that invites all qualified firms to indicate their interest in providing professional services for a specific project. The final selection is required to be made by a selection panel.

Failure to comply with the requirements of Chapter 39.80 RCW and District Policy 9321 did not allow fair access for other architect and engineering firms to receive district contracts. Also, the district may not have contracted with the most qualified firm available or received the best value for services rendered.

District management did not advertise for the work performed by Sitts and Hill Engineers, Inc., and Snodgrass, Freeman Associates because the firms performed work for the district on an informal basis (without approved purchase order) before the district defined the scope of the projects. Management felt that a change in consultants subsequent to the project's start would not benefit the district.

We recommend the district award all future architecture and engineering contracts in

accordance with Chapter 39.80 RCW and district policy. We further recommend the district discontinue the practice of awarding work on an informal basis and determine the project scope prior to obligating district resources.

12. District Officials Should Authorize Purchase Orders And Improve Purchasing Controls

Our audit of district purchases found that employees of the district have frequently placed unauthorized orders for purchases on behalf of the district. In these cases, proper authorization was obtained after district funds had been obligated. This practice resulted in an instance where a duplicate order for \$40,000 of computers was placed. The district received and kept the equipment from the duplicate order. Also, our testing revealed several purchases which did not have adequate evidence that goods or services purchased were in fact received.

District Policy 7320 grants authority to authorize purchases as follows:

The Superintendent or the Purchasing Agent and Director of Business are hereby granted the authority to approve purchases of less than \$20,000. The Board shall be advised of any purchase greater than \$20,000 **prior to approval**. (Emphasis added.)

Also, RCW 28A.330.090 states in part:

. . . no expenditure greater than three hundred dollars shall be voted by the board except in accordance with a written contract, nor shall any money or appropriation be paid out of the school fund except on a recorded affirmative vote of a majority of all members of the board . . .

Without proper controls over the purchasing function, district officials do not know if:

- a. Purchases are necessary.
- b. They are receiving the purchased goods or services.
- c. The price for the goods or services purchased is in fact the lowest price reasonably available.

Other difficulties likely to arise from unauthorized orders are budget overruns and competitive bid law violations.

This condition occurred when district employees did not follow official district policies and management failed to adequately enforce district policies.

We recommend district management enforce district policies and procedures designed to provide controls over purchases. We also recommend the district issue purchase orders for all purchases **prior** to obligation of district funds.

13. The District Should Comply With State Bid Laws And Its Own Purchasing Policies

Our audit of the purchasing system noted some items that were not properly let out for bid. The following instances were noted:

- a. The district 'split' purchases after initiating formal bid No. 91-21. Formal bid No. 91-21 with a total estimated cost of \$27,859 included athletic equipment and uniforms for Harbor Ridge Middle School. However, prior to the formal bid announcement, athletic uniforms in the amount of \$12,907 were improperly extracted from bid No. 91-21 and informally bid and awarded through telephone solicitations.
- b. Goods in the amount of \$11,740 were purchased by the district from Western School Supply. The district was unable to produce documentation of informal bid solicitations.
- c. The district purchased used equipment which it considered "sole source." Documentation of telephone inquiries, appraisals and other evidence upon which the district based its determination were unavailable for inspection.
- d. The Gig Harbor High School weight room project, which was estimated to cost \$25,350, was not bid.

RCW 28A.335.190 states in part:

(1) When, in the opinion of the board of directors of any school district, the cost of any furniture, supplies, equipment, building, improvements, or repairs, or other work or purchases, except books, will equal or exceed the sum of **twenty thousand dollars**, complete plans and specifications for such work or purchases shall be prepared and notice by publication given in at least one newspaper of general circulation within the district, once each week for two consecutive weeks, of the intention to receive bids therefor . . .

(2) Every purchase of furniture, equipment or supplies, except books, the cost of which is estimated to be in excess of **seventy-five hundred dollars**, shall be on a competitive bid process . . . Whenever the estimated cost is in excess of **twenty thousand dollars**, the public bidding process provided in subsection (1) of this section shall be followed. (Emphasis added.)

Requirements of District Policy 7321 are similar to those in state law.

The district's failure to adhere to state bid laws and its own policies is a violation and makes it difficult to determine whether the district received the best value for its money. In addition, there is no assurance that contracts were awarded impartially.

The bid law violations occurred because management felt the bid law was cumbersome, and it was more expedient in certain instances to purchase from suppliers with an established relationship with the district.

We recommend management take steps to ensure state law and district policy are followed for all purchases.

14. The District Should Strengthen Control Over Official Travel

Our review of the district's travel expenditures revealed the following conditions:

- a. Trips are not always approved in accordance with district policy. Also, we found several instances where administrators approved their own travel requests.
- b. Travel expenses are documented only when a reimbursement is requested, therefore, the district cannot be sure it received proper value for travel expenses paid through its accounts payable system or with district credit cards.
- c. Claims paid to hotels indicated the district had paid at the double occupancy rate due to the employee's spouse accompanying the employee on the trip. We could find no reimbursement for the incremental cost to the district.

Article VIII, Section 7 of the Washington State Constitution states in part:

... No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual

RCW 42.24.115 states in part:

... Upon billing or no later than ten days of the billing date, the officer or employee using a charge card issued under this section shall submit a fully itemized travel expense voucher. Any charges against the charge card not properly identified on the travel expense voucher or not allowed following the audit required under RCW 42.24.080 shall be paid by the official or employee by check, United States currency, or salary deduction.

RCW 42.24.090 also states in part:

No claim for reimbursement of any expenditures by officers or employees of any municipal corporation or political subdivision of the state for transportation, lodging, meals or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts unless the same shall be presented in a detailed account

Peninsula School District Policy 7335 states in part:

It is also the policy of the Peninsula School District to reimburse staff members for approved travel expenses (Emphasis added.)

Without procedures to determine if travel expenditures are reasonable and necessary, the district cannot be sure public moneys are spent in accordance with state law and board policy.

These weaknesses occurred because the district travel procedures do not adequately address settlement of travel expenses, approvals, or reimbursement for unallowable expenses.

We recommend the district strengthen travel procedures and follow its own travel policies. We also recommend the district consider recovery of all undocumented and unallowable travel expenses.

15. Incompatible Duties In The Search Program Need To Be Separated And All Fees Should Be Deposited Intact

Our review of district expenditures revealed weaknesses in internal controls within the Search Program. A ceramics teacher, who is an employee of the district, performs incompatible duties because she is also a supplies vendor for the program. The instructor selects "greenware" (unfinished clay molded objects) from her business and sells the greenware to her students. The instructor collects and holds cash fees from the students, and bills the district for any difference between the cost of the greenware and the fees collected from the students. Also, all moneys collected in association with the Search Program were not deposited intact with the district immediately.

Peninsula School District Policy 5223 states in part:

. . . Districts should take care that staff members, due to their positions with the district or the captive nature of their audience, do not unfairly promote their personal financial interest . . . IT IS THE POLICY OF THE PENINSULA SCHOOL DISTRICT THAT STAFF MEMBERS SHALL NOT ENGAGE IN OR HAVE A DIRECT FINANCIAL INTEREST IN ANY ACTIVITY WHICH CONFLICTS WITH THEIR DUTIES AND RESPONSIBILITIES. . . .

Policy 5223 further states in part:

. . . 1. Activities where a conflict of interest may exist include, but are not limited to: a. Receiving economic benefit from selling or promoting the sale of goods or services to the students or their parents where the knowledge of the staff members' relationship to the district is in any way utilized to influence the sale . . . d. Participating in any way in the selection process for materials, books or equipment when an item developed by or authored by the staff member or a member of his/her family is under consideration for approval for district use

Article XI, Section 15 of the Washington State Constitution states in part:

DEPOSIT OF PUBLIC FUNDS. All moneys, assessments and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer

This condition resulted because the ceramics teacher followed oral instructions from her district supervisor and was not aware of potential problem. The effect of these incompatible functions is increased risk that irregularities may occur and not be detected in the normal course of business.

We recommend the Search Program supervisor administer the purchasing of greenware and other necessary supplies for the ceramics class. The Search Program supervisor should collect all fees for tuition and supplies from the students and deposit these moneys immediately with the district business office. If greenware and other supplies are purchased from the ceramics teacher's private business, she should bill the district for the full amount of the product sold.

16. Internal Control Over Associated Student Body Funds Should Be Improved

Our audit of Associated Student Body (ASB) Fund records revealed weaknesses in control procedures. We noted several accounting problems with ASB assets as noted below:

a. Unauthorized moneys and transactions:

(1) One school held parent teacher association (PTA) cash and checks in the ASB safe. The checks were for a field trip for the students and organized by parents. The cash was \$201 in two change funds for the parent organization bingo games.

(2) Two schools' parent/volunteer/teacher organizations held moneys that elementary students earned for candy, jewelry, and wrapping paper sales. When elementary students raise money outside the school such as selling door to door, or to their parents and relatives, the moneys must be deposited in the ASB Program Fund of the district.

(3) Two schools' ASB safes contained private vendor cash receipts from merchandise left on display at the schools. The ASB secretaries acted as unpaid sales personnel for the private vendor. Further, there were no reconciliation procedures in place to control the non-district moneys.

(4) One school's ASB safe contained an \$18,000.00 non-district certificate of deposit.

(5) The ASB safe at one school contained personal money of an employee.

(6) One school ASB safe contained cash belonging to an employee fund. This cash should be in a checking account maintained by a teacher.

b. One school's ASB ledger showed the school store had a deficit cash balance. Three warrants were written. The first caused the deficit condition, and the next two increased the deficit. The ASB secretary informed the principal at this school that deficit balances were not allowed, however, the principal instructed her to follow through with the transactions.

c. Receipts:

(1) One school had redi-form (non-district) receipts in the ASB safe. Some of the receipts were missing from the receipt book.

(2) Two schools' ASB safes contained money and did not have reconciling procedures to substantiate the amounts of money. The ASB secretaries should not take possession of any money unless the secretary has documentation to support how much money should be there, and how it relates to ASB activities.

(3) One school did not use detail receipts at the club level, but instead had students turn money into the ASB secretary. Schools with established clubs should receipt club moneys at the club level, then turn the money over to the ASB secretary for a summary receipt to be deposited in the bank.

(4) Two schools had original ink on receipt copies.

d. Cash and checks:

(1) One school deposited ASB money only twice a month.

(2) Three schools' receipts were not properly annotated as cash or check

received.

- (3) One school had obsolete checks still in the ASB vault.
- (4) The ASB secretary at one school wrote checks payable to herself.
- (5) The ASB secretaries at two schools carry large sums of cash to the bank by themselves.
- (6) The ASB secretary at one school reconciles the ASB checking account, but there was no supervisory approval of her reconciliation.
- (7) One school's vault contained checks from November and December 1992, which were not deposited in April 1993.

e. Inventories:

- (1) Two schools' student stores did not have an inventory system in place. Inventory receipts from sales of merchandise were commingled with all other ASB receipts when depositing. Since there was no inventory system, we could not determine the accuracy of any deposits. One of the schools did not receipt the student store revenues daily.
- (2) Three schools did not have adequate inventory systems to control ice cream sales. One of the schools had a teacher who was paid as an advisor to control the ice cream sales. The advisor did not count the cash receipts before turning the receipts over to the ASB secretary.

f. Receiving documents were not adequate at three schools. Eight of thirty transactions tested lacked adequate receiving documents.

All of these weaknesses could cause errors or irregularities to occur which might not be detected in the normal course of business. These exceptions resulted from a lack of emphasis placed on ASB at the school level, ASB staff performing non-district functions, and heavy work loads in the positions handling ASB funds.

We recommend the district provide training for the ASB secretaries to improve control over the handling of ASB money. We specifically recommend ASB secretaries process only ASB money.